

**REPORT OF THE AUDIT OF THE
FORMER WAYNE COUNTY
SHERIFF**

**For The Year Ended
December 31, 2006**



**CRIT LUALLEN
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EXECUTIVE SUMMARY

AUDIT EXAMINATION OF THE FORMER WAYNE COUNTY SHERIFF

**For The Year Ended
December 31, 2006**

The Auditor of Public Accounts has completed the former Wayne County Sheriff's audit for the year ended December 31, 2006. Based upon the audit work performed, the financial statement presents fairly, in all material respects, the revenues, expenditures, and excess fees in conformity with the regulatory basis of accounting.

Financial Condition:

Excess fees increased by \$23,238 from the prior year, resulting in excess fees of \$39,577 as of December 31, 2006. Revenues decreased by \$136,536 from the prior year and expenditures decreased by \$159,774.

Report Comments:

The Former Sheriff's Office Lacked Adequate Segregation Of Duties

Deposits:

The former Sheriff's deposits were insured and collateralized by bank securities.

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CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Greg Rankin, Wayne County Judge/Executive
The Honorable James L. Hill, Former Wayne County Sheriff
The Honorable Charles Boston, Wayne County Sheriff
Members of the Wayne County Fiscal Court

Independent Auditor's Report

We have audited the accompanying statement of revenues, expenditures, and excess fees - regulatory basis of the former Sheriff of Wayne County, Kentucky, for the year ended December 31, 2006. This financial statement was the responsibility of the former Sheriff. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for County Fee Officials issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the Sheriff's office prepares the financial statement on a regulatory basis of accounting that demonstrates compliance with the laws of Kentucky, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statement referred to above presents fairly, in all material respects, the revenues, expenditures, and excess fees of the former Sheriff for the year ended December 31, 2006, in conformity with the regulatory basis of accounting described in Note 1.

In accordance with Government Auditing Standards, we have also issued our report dated September 28, 2007 on our consideration of the former Sheriff's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.



The Honorable Greg Rankin, Wayne County Judge/Executive
The Honorable James L. Hill, Former Wayne County Sheriff
The Honorable Charles Boston, Wayne County Sheriff
Members of the Wayne County Fiscal Court

Based on the results of our audit, we have presented the accompanying comment and recommendation, included herein, which discusses the following report comment:

- The Former Sheriff's Office Lacked Adequate Segregation Of Duties

This report is intended solely for the information and use of the Sheriff and Fiscal Court of Wayne County, Kentucky, and the Commonwealth of Kentucky and is not intended to be and should not be used by anyone other than these interested parties.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Crit Luallen", with a long horizontal flourish extending to the right.

Crit Luallen
Auditor of Public Accounts

September 28, 2007

WAYNE COUNTY
JAMES L. HILL, FORMER SHERIFF
STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS

For The Year Ended December 31, 2006

Revenues

Federal - U.S. Army Corps of Engineers	\$	9,638	
Federal - Body Armor Grant			1,225
State - Kentucky Law Enforcement Foundation Program Fund			19,838
State Fees For Services:			
Finance and Administration Cabinet			91,914
Circuit Court Clerk:			
Fines and Fees Collected			7,596
Fiscal Court			5,400
County Clerk - Delinquent Taxes			1,608
Commission On Taxes Collected			198,986
Fees Collected For Services:			
Auto Inspections	\$	5,655	
Accident and Police Reports		256	
Serving Papers		14,070	
Patient Transport		9,627	
Prisoner Transport		1,324	
Carrying Concealed Deadly Weapon Permits		7,060	37,992
Other:			
Sheriff's Fees on Taxes		27,960	
Miscellaneous		1,979	
Sheriff's Execution Sale Proceeds		7,557	37,496
Interest Earned			910
Borrowed Money:			
State Advancement		90,000	
Bank Note		26,000	116,000
Total Revenues			528,603

The accompanying notes are an integral part of this financial statement.

WAYNE COUNTY
 JAMES L. HILL, FORMER SHERIFF
 STATEMENT OF REVENUES, EXPENDITURES, AND EXCESS FEES - REGULATORY BASIS
 For The Year Ended December 31, 2006
 (Continued)

Expenditures

Operating Expenditures and Capital Outlay:

Personnel Services-

Deputies' Salaries \$ 126,959

Part-Time Salaries 67,423

Employee Benefits-

Employer's Share Retirement 2,140

Contracted Services-

Advertising 388

Materials and Supplies-

Office Materials and Supplies 4,831

Uniforms and Equipment 11,568

Uniforms - Body Armor 1,225

Auto Expense-

Gasoline 36,439

Vehicle Maintenance and Repairs 22,809

Other Charges-

Conventions and Travel 4,018

Postage 46

Fugitive Transport 3,836

Carrying Concealed Deadly Weapons Permits 4,780

Sheriffs Sale Proceeds Disbursed 7,155

Miscellaneous 2,933

Capital Outlay-

Office Equipment 2,915 \$ 299,465

Debt Service:

State Advancement 90,000

Notes 26,000

Interest 918 116,918

Total Expenditures

416,383

Net Revenues

112,220

Less: Statutory Maximum

69,341

Excess Fees

42,879

Less: Training Incentive Benefit

3,302

Excess Fees Due County for 2006

39,577

Payment to Fiscal Court - February 6, 2007

39,471

Balance Due Fiscal Court at Completion of Audit

\$ 106

The accompanying notes are an integral part of this financial statement.

WAYNE COUNTY
NOTES TO FINANCIAL STATEMENT

December 31, 2006

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

A fee official uses a fund to report on the results of operations. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

A fee official uses a fund for fees to account for activities for which the government desires periodic determination of the excess of revenues over expenditures to facilitate management control, accountability, and compliance with laws.

B. Basis of Accounting

KRS 64.820 directs the fiscal court to collect any amount, including excess fees, due from the Sheriff as determined by the audit. KRS 134.310 requires the Sheriff to settle excess fees with the fiscal court at the time he files his final settlement with the fiscal court.

The financial statement has been prepared on a regulatory basis of accounting, which demonstrates compliance with the laws of Kentucky and is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this regulatory basis of accounting revenues and expenditures are generally recognized when cash is received or disbursed with the exception of accrual of the following items (not all-inclusive) at December 31 that may be included in the excess fees calculation:

- Interest receivable
- Collection on accounts due from others for 2006 services
- Reimbursements for 2006 activities
- Tax commissions due from December tax collections
- Payments due other governmental entities for payroll
- Payments due vendors for goods or services provided in 2006

The measurement focus of a fee official is upon excess fees. Remittance of excess fees is due to the County Treasurer in the subsequent year.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the Sheriff's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

WAYNE COUNTY
NOTES TO FINANCIAL STATEMENT
December 31, 2006
(Continued)

Note 2. Employee Retirement System

The county officials and employees have elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a cost-sharing, multiple-employer, defined benefit pension plan that covers all eligible full-time employees and provides for retirement, disability, and death benefits to plan members.

Benefit contributions and provisions are established by statute. Nonhazardous covered employees are required to contribute 5.0 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 10.98 percent for the first six months and 13.19 percent for the last six months of the year.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65.

Historical trend information pertaining to CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report which is a matter of public record. This report may be obtained by writing the Kentucky Retirement Systems, 1260 Louisville Road, Frankfort, Kentucky 40601-6124, or by telephone at (502) 564-4646.

Note 3. Deposits

The former Sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) as required by KRS 66.480(1)(d). According to KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the Sheriff and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution.

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a depository institution failure, the Sheriff's deposits may not be returned. The former Sheriff did not have a deposit policy for custodial credit risk but rather followed the requirements of KRS 41.240(4). As of December 31, 2006, all deposits were covered by FDIC insurance or a properly executed collateral security agreement.

Note 4. Lease

The office of the former Sheriff was committed to a lease agreement with Lanier for a copier. The agreement required a monthly payment of \$215 for 12 months to be completed on May 10, 2007. The total remaining balance of the agreement was \$1,075 as of December 31, 2006. This agreement was transferred to the incoming Sheriff.

WAYNE COUNTY
NOTES TO FINANCIAL STATEMENT
December 31, 2006
(Continued)

Note 5. Drug Enforcement and Education Fund

Under the terms mandated by the Commonwealth of Kentucky, the former Wayne County Sheriff's office received proceeds from the confiscation, surrender, or sale of real and personal property involved in drug related convictions. These funds were used exclusively for operating expenditures incurred for law enforcement activities and drug education and are not included in excess fees.

As of January 1, 2006 the former Sheriff had a balance of \$11,946. Receipts for 2006 were \$14,084, which includes the \$3,000 donation in Note 6, and expenditures were \$13,999. The former Sheriff transferred \$12,031 to the incoming Sheriff leaving \$0 as of December 31, 2006.

Note 6. Donation From Non-Governmental Entity

The former Wayne County Sheriff's office received a donation of \$3,000 from Wal-Mart for the specific purpose of child identification. The donation was deposited into the former Sheriff's Drug Enforcement and Education account, and as of December 31, 2006 all funds had been expended for child identification equipment.

Note 7. Federal Body Armor Grant

In 2005, the Office of Justice Programs' Bureau of Justice Assistance awarded the former Wayne County Sheriff \$3,895 from the Bulletproof Vest Partnership Program. The balance as of January 1, 2006 was \$1,225. As of December 31, 2006 all funds had been expended in accordance with the provisions of the grant.

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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND COMPLIANCE
AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL STATEMENT
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS



CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Greg Rankin, Wayne County Judge/Executive
The Honorable James L. Hill, Former Wayne County Sheriff
The Honorable Charles Boston, Wayne County Sheriff
Members of the Wayne County Fiscal Court

Report On Internal Control Over Financial Reporting And
On Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards

We have audited the statement of revenues, expenditures, and excess fees - regulatory basis of the former Wayne County Sheriff for the year ended December 31, 2006, and have issued our report thereon dated September 28, 2007. The Sheriff's financial statement is prepared in accordance with a basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the former Wayne County Sheriff's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the former Wayne County Sheriff's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the former Wayne County Sheriff's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However as discussed below, we identified a certain deficiency in internal control over financial reporting that we consider to be a significant deficiency.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with the regulatory basis of accounting such that there is more than a remote likelihood that a misstatement of the entity's financial statement that is more than inconsequential will not be prevented or detected by the entity's internal control over financial reporting. We consider the deficiency described in the accompanying comment and recommendation to be a significant deficiency in internal control over financial reporting.

- The Former Sheriff's Office Lacked Segregation Of Duties



Report On Internal Control Over Financial Reporting And
On Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards
(Continued)

Internal Control Over Financial Reporting (Continued)

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statement will not be prevented or detected by the entity's internal control. Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we consider the significant deficiency described above to be a material weakness.

Compliance And Other Matters

As part of obtaining reasonable assurance about whether the former Wayne County Sheriff's financial statement for the year ended December 31, 2006, is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

This report is intended solely for the information and use of management, the Wayne County Fiscal Court, and the Kentucky Governor's Office for Local Development and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,



Crit Luallen
Auditor of Public Accounts

September 28, 2007

COMMENT AND RECOMMENDATION

WAYNE COUNTY
JAMES L. HILL, FORMER SHERIFF
COMMENT AND RECOMMENDATION

For The Year Ended December 31, 2006

INTERNAL CONTROL –MATERIAL WEAKNESS:

The Former Sheriff's Office Lacked Adequate Segregation Of Duties

During our review of internal controls, we noted the former Sheriff's office lacked adequate segregation of duties over revenues and expenditures. The former Sheriff's bookkeeper received cash, prepared daily checkouts and bank deposits, recorded receipts and expenditures to the ledgers, prepared checks, and reconciled bank records and prepared all reports.

The control deficiency described above is a significant deficiency and material weakness. The former Sheriff should have implemented the following compensating controls to offset the lack of segregation of duties:

- The former Sheriff should have periodically recounted and deposited cash receipts. This should have been documented by initialing the daily check out sheet and deposit ticket.
- The former Sheriff should have periodically compared the bank deposit to the daily checkout sheet and then compared the daily checkout sheet to the receipts ledger. This should have been documented by initialing the bank deposit, daily checkout sheet, and receipts ledger.
- The former Sheriff should have compared the bank reconciliation to the receipts and disbursement ledgers. This should have been documented by initialing the bank reconciliation and the ledgers.
- The former Sheriff should have examined checks, including payroll prepared by the fiscal court, and compared them to the proper documentation. This should have been documented by initialing the invoices and other supporting documentation.

Former Sheriff's Response: No Response.

